

Service Date: August 5, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application by)	UTILITY DIVISION
PACIFIC POWER AND LIGHT COMPANY)	
to Adopt Increased Rates For Electric)	DOCKET NO. 83.5.36
Service.)	INTERIM ORDER NO. 5009

FINDINGS OF FACT

1. On May 10, 1983, Pacific Power and Light Company (PP&L, Company or Applicant) filed an application with the Montana Public Service Commission seeking increased rates in the amount of \$5,825,000. Of the \$5,825,000, PP&L estimates that \$1,689,000 can be recovered from the Bonneville Power Administration (BPA) pursuant to the terms of the Company's Residential Purchase and Sale Agreement with BPA authorized by the Pacific Northwest Electric Power Planning and Conservation Act (Regional Act). Therefore, PP&L seeks a net increase of \$4,136,000, or a net increase of 19.7 percent.

2. Included in PP&L's filing for general rate relief was an application for interim rate relief, subject to rebate, in the amount of \$2,074,000, based on a test year ended December 31, 1982. Table C of the interim filing shows that, net of the BPA exchange credit, PP&L requires \$1,564,000.

3. Pursuant to the Commission's rules on interim rate increases, ARM Sections 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel, parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

4. In its motion for temporary rate increase, PP&L stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return contained in the Company's last Montana general rate order (Docket No. 82.4.28, Order No. 4928a).

Accepted Company Adjustments

5. As stated above, Applicant made several adjustments in its interim filing to conform with the methodologies and rate of return approved in Order No. 4928a. Of those proposed interim adjustments, the Commission accepts the following: rate of return (10.97% overall); institutional advertising expense (reduction of \$15,000); coal costs (reduction of \$170,000); purchased power expense (increase of \$194,000 resulting from the normalization of firm off-system sales); transmission expense (decrease of \$1,000); revenues from subsidiary investment tax credit utilization (increase of \$21,000); amortization of proceeds from the sale of tax benefits (\$94,000 decrease to operating revenue deductions); restoral of gain from the debt/equity swap (increase of \$104,000 to income taxes deferred in prior years); and the additional available investment tax credit of \$308,000. The Applicant also used a 13 month average rate base, and normalized firm off-system sales, which are methodologies that the Commission accepts for this interim filing.

Production Cost Study

6. In conformance with Order No. 4928a, the Company normalized firm off-system sales for this interim request. The Company proposed a 33.43 mills per kwh sales price for those sales. This is the actual sales price contained in PP&L's lone firm contract which is with the California Department of Water Resources. In Order No. 4928a, however, the sales price was 36.44 mills per kwh, based on the existing contracts at that time. The Commission believes that the sales price of firm off-system sales may be a controverted issue in this Docket; therefore, consistency with the price level approved in Order No. 4928a would be most prudent. The Commission, therefore, finds the firm off-system sales price of 36.44 mills per kwh to be proper for interim purposes in this proceeding. The resulting adjustment is an increase in revenues in the amount of \$454,000 reflecting normalized firm off-system sales sold at a price of 36.44 mills per kwh.

Subsidiary Investment Tax Credit Utilization

7. In conformance with Order No. 4928a, the Company increased revenues by \$47,000 to reflect subsidiary utilization of investment tax credit. Upon examination, the Company determined

that the figure in the interim filing was erroneous and supplied the Commission with the correct figure. The Commission accepts the Company's correction and finds \$21,000 as the proper amount to be added to revenues to reflect subsidiary utilization of investment tax credits.

Wage Adjustment

8. The Company proposed to utilize 1983 salary increase projections for test year labor expenses. The Company's use of projections of salary increases is contrary to the method approved in Order No. 4928a, in which only known and measurable changes in wage levels were allowed. Based on MCC Data Request No. 13 for this Docket, the Company in conformance with Order No. 4928a methodology, refigured labor expense using only known and measurable changes in wage levels. The Commission accepts labor expense based on known and measurable wage levels, and finds \$10,000 to be the proper amount of decrease in labor expense.

Interest Expense

9. The Company proposed to exclude from its interest expense that interest expense related to the Colstrip project. The Commission views this exclusion as a projection based on PP&L's desire to sell its interest in the Colstrip project. Since this sale is not yet a known and measurable change, the Commission finds it appropriate to include the Colstrip-related interest in PP&L's interest expense calculation. Inclusion of said interest results in an adjustment of \$14,000 as a decrease to taxes.

Property Tax

10. The Company proposed to use an average of year-end 1981 and year-end 1982 situs plant multiplied by a projected 1983 tax rate to determine a property tax adjustment. Since the tax paid in 1982 is actually based on 1981 plant, the Commission finds the proper amount of plant to be used in this calculation is the year-end 1981 plant balance. Because the tax rate applied by PP&L to the plant is a projected rate, the Commission finds it appropriate to use the actual 1982 tax rate of .67 percent. The resulting adjustment is a decrease in property taxes in the amount of \$282,000.

Deferred Investment Tax Credit Rate Base Adjustment

11. The Company proposed the following formula for determining deferred ITC rate base adjustment:

Deferred ITC	\$308,000
Portion Reflecting ERTA	<u>29</u>
(Economic Recovery Tax Act)	<u>X 30</u>
	\$298,000
Average	<u>÷ 2</u>
Rate Base Reduction	<u>\$149,000</u>

12. The Company proposed this formula to reflect its belief that the deferred investment tax credit is post-1980 and, therefore, subject to ERTA. The Commission believes that the Company's post-1980 ITC assertion and the Company's formula to determine the associated rate base adjustment may be a controverted issue in this Docket. The Commission, therefore, finds the formula used in Order No. 4928a to be the proper approach in determining the deferred ITC rate base adjustment in this interim proceeding. The resulting adjustment is a rate base reduction in the amount of \$154,000 ($\$308,000 \div 2 = \$154,000$).

13. The following chart shows that, on an interim basis and subject to rebate, additional annual revenues in the amount of \$1,575,000 are needed by the Applicant:

PACIFIC POWER AND LIGHT COMPANY
INTERIM REVENUE REQUIREMENT
1982 TEST YEAR
(000)

	PP&L Pro Forma	Accepted PP&L Interim Adjustments	PSC Adjustments	Accepted Interim Pro Forma	PSC Deferred ITC Rate Base Adjustment	Increase Required for 10.97% Return	Approved Total
Operating Revenue	\$ 26,705		\$ 485	\$ 27,190		\$ 1,575	\$ 28,765
Operating Revenue Deductions							
O&M Expenses	\$ 15,696	\$ (15)	13	15,694			15,694
Depreciation & Amortization	2,546	0		2,546			2,694
Taxes Other Than Fed. Inc.	1,265		(282)	983		1	984
State Income Tax	120	16	49	185	\$ 1	106	292
Federal Income Tax:							
FIT @ 46%	762	225	311	1,298	3	675	1,976
Investment Tax Credit	(647)	0		(647)		(308)	(955)
Net Fed. Inc. Tax	115	225	311	651	3	367	1,021
Deferred Income Taxes	348	(146)		202			202
Income Taxes Deferred in Prior Years	(180)	104		(76)			(76)
Investment Tax Credit Adj.	440	0		440		308	748
Amortization of Proceeds From Sale	0	(182)		(182)			(182)
Total Operating Revenue Deductions	<u>\$ 20,350</u>	<u>\$ 2</u>	<u>\$ 91</u>	<u>\$ 20,443</u>	<u>\$ 4</u>	<u>\$ 782</u>	<u>\$ 21,229</u>
Net Operating Income	<u>\$ 6,355</u>	<u>\$ (2)</u>	<u>\$ 394</u>	<u>\$ 6,747</u>	<u>\$ (4)</u>	<u>\$ 793</u>	<u>\$ 7,536</u>
Average Rate Base	<u>\$ 69,550</u>	<u>\$ (657)</u>	<u>\$ (39)</u>	<u>\$ 68,854</u>	<u>\$ (154)</u>		<u>\$ 68,700</u>
Rate of Return	9.14%			9.80%			10.97%

CONCLUSIONS OF LAW

1. The Applicant, Pacific Power and Light Company, furnishes electric service to Montana consumers, and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Title 69, Chapter 3, MCA.

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion, temporarily approve increases pending a hearing or final decision."

3. If the final decision of the Commission is to disapprove the increase granted on an interim basis, the Commission will order a rebate thereof with interest of 14.5 percent to all customers. Section 69-3-304, MCA.

4. The Commission finds that the Company's interim rate application, as modified by this Order, complies with the Commission's interim rate increase rules. ARM 38.5.501 et seq.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Pacific Power and Light Company, is hereby granted authority to implement on an interim basis increased rates designed to generate \$1,575,000 in additional revenues on an annual basis.

2. Pacific Power and Light Company is to file revised rate schedules reflecting a uniform percent increase to all rates and charges.

3. Rate schedules filed shall comport with all Commission determinations set forth in this Interim Order.

4. The Applicant's tariff submittal shall reflect the current BPA Exchange Credit for the qualifying schedules.

5. Interim revenues granted herein are subject to rebate should the final order in this Docket disapprove this interim revenue increase. Pursuant to the amendment of Section 69-3-302(2), MCA, approved by the 48th Legislature, and effective October 1, 1983, the rebate interest rate will be the cost of equity capital last determined by the Commission, which is 14.5 percent.

6. Nothing in this Interim Order precludes the Commission from adopting in its final order, after reviewing the entire record in this Docket, a revenue requirement different from that contained in this Order.

7. The interim relief granted in this Order is to be effective for electric service rendered on and after August 3, 1983.

DONE IN OPEN SESSION this 3rd day of August, 1983 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)